

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* South County Sewer & Water Authority	County* KALAMAZOO	Type* AUTHORITY	MuniCode* 39-7-519
Opinion Date-Use Calendar* Sep 5, 2008	Audit Submitted-Use Calendar* Sep 30, 2008	Fiscal Year End Month* 03	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> ? \$ 174,909.00
General Fund Expenditure:	<input type="checkbox"/> ? \$ 368,156.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> ? \$ 5,808,429.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> ? \$ 4,097,572.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Matthew	Last Name* Howard	Ten Digit License Number* 1101013253		
CPA Street Address* 555 W. Crosstown Pkwy.	City* Kalamazoo	State* MI	Zip Code* 49008	Telephone* +1 (269) 343-8180
CPA Firm Name* Seber Tans, PLC	Unit's Street Address* 7510East Q Ave.	Unit's City* Scotts	Unit's Zip* 49088	

SOUTH COUNTY SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2008 and 2007

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
South County Sewer and Water Authority

We have audited the accompanying financial statements of South County Sewer and Water Authority as of and for the years ended March 31, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the South County Sewer and Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of South County Sewer and Water Authority at March 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the South County Sewer and Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audits of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Seber Tans, PLC
Kalamazoo, Michigan

September 5, 2008

South County Sewer and Water Authority Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing sanitary sewer service to the businesses and residents (collectively the Users) of participating Municipalities. The Authority acts as an agent of the participating Municipalities. The quarterly amounts charged to Users approximate the operating costs incurred by the Authority in providing sanitary sewer collection and subsequent treatment at the City of Kalamazoo's regional facility. In addition to the annual operating costs of providing sanitary sewer, the Authority is responsible for the repayment of long-term bonds and other debt obligations incurred to finance construction of the sanitary sewer system. Capital costs are generally charged to the benefiting party, the land owner and/or developer, at the time the infrastructure is constructed.

A significant non-cash expense of the Authority is depreciation. For budgeting purposes and for setting user rates, management does not consider depreciation expense. Depreciation expense represents costs associated with the construction of the sanitary sewer system that are financed by long-term debt obligations and assessments on the benefiting property. Customer principal payments from assessments and Authority principal payments made on long-term financing are not reflected as revenues or expenses of the Authority.

	2008	2007
Total operating expenses	\$ 368,156	\$ 355,678
Less depreciation and amortization	(198,514)	(198,500)
Operating expenses, net of depreciation and amortization	169,642	157,178
Users (expressed as units)	594	592
Annual cost per Unit	\$ 286	\$ 266
Monthly cost per Unit	\$ 24	\$ 22

The Authority's costs of operating are primarily affected by wastewater treatment charges from the City of Kalamazoo and the costs of contracted services and employed personnel. The sanitary sewer system covers a geographic area of approximately 5 square miles with 15 miles of pipeline. It is projected that approximately 50 new users will connect to the sewer system over the next ten years. Some of these users may be other than single family homes and contribute flow greater than single family homes (equivalent units of flow).

The Authority's net assets decreased \$158,000 in 2008 and decreased \$85,000 in 2007. In 2008 there were no major extensions of public sewer. The authority recognized contributed capital of \$ 41,600 for 2008 and \$97,600 for 2007.

South County Sewer and Water Authority Management's Discussion and Analysis

	2008	2007	% Change
Capital assets	\$ 6,470,592	\$ 6,664,709	-2.9
Other assets	3,503,028	3,851,685	-9.1
Total assets	9,973,620	10,516,394	-5.2
Long-term liabilities	3,726,572	4,108,669	-9.3
Other liabilities	438,619	441,163	-0.6
Total liabilities	4,165,191	4,549,832	-8.5
Net assets:			
Invested in capital assets net of related debt	2,349,092	2,158,612	8.8
Restricted assets	3,404,128	3,745,305	-9.1
Unrestricted assets	55,209	62,645	-11.9
Total net assets	\$ 5,808,429	\$ 5,966,562	-2.7

Restricted net assets represent the total of all assets restricted for the repayment of bond obligations and for future capital improvements. Debt obligations payable exceeded the total restricted net assets of the Authority by approximately \$680,000 and \$730,000 at March 31, 2008 and 2007, respectively. This shortfall in assets available to repay the debt results from a number of factors: (1) The Users were originally assessed 80% of the estimated construction cost for the sanitary sewer. As is typical, users were charged a lower initial cost per user in anticipation of normal future growth over time. (2) One User comprising 26% of the total assessment was granted a reduction of \$468,030 from the amount the User was originally assessed. (3) The growth rate anticipated at the time of construction was 10 new units (homes) per year; the growth rate average to date equals 7 new units per year. Over time it is anticipated that the expected average growth rate will be met.

The Authority's ability to manage the repayment of bonded debt at a reasonable cost to the Users is a key objective of management. Management semi-annually reviews the growth rate and estimates future cash flows. Management annually recommends adjustments to the debt service charge based on a number of factors such as (i) the amount of new connection fees, (ii) interest rates earned on investments, (iii) and the rate at which assessment and connection fee contracts are prepaid. The ultimate debt service cost to the Users depends on these three factors.

The Authority Board closely monitors the debt requirements and each year makes recommendations to the participating municipalities for adjustments to the debt service fee as needed to maintain long-term surplus cash flow for debt repayment. The participating municipalities have, to date, adjusted debt service fees according to the recommendations.

South County Sewer and Water Authority Management's Discussion and Analysis

	2008	2007	% Change
Operating revenue	\$ 174,909	\$ 170,589	2.5
Operating costs	368,156	355,678	3.5
Net loss from operations	(193,247)	(185,089)	-4.4
Net non-operating revenue (expense)	(6,486)	2,558	-353.5
Net loss	<u>\$ (199,733)</u>	<u>\$ (182,531)</u>	-9.4

Absent depreciation, the Authority had an excess of operating revenues over operating costs of approximately \$5,300 and \$43,400 for 2008 and 2007 respectively. Operating revenues increased by 1% and 10% for 2008 and 2007 respectively.

The increase in operating costs resulted primarily from an increase in treatment charges from the City of Kalamazoo's regional treatment facility. Since July 1, 2007, the City of Kalamazoo has increased its treatment cost by 30%.

Operating revenues for 2008 increased as compared to 2007. There was a slight increase in operating costs in 2007. The change in net non-operating revenues (expenses) is the difference between non-operating expenses vs non-operating revenues. The Authority continued to have a significant negative net interest margin. The negative interest margin amounted to \$24,000 for 2008 and \$33,000 for 2007. The negative interest margin results primarily from comparing interest earned on restricted cash and investments with interest payable on contract debt. Management reviews the cost effectiveness of redeeming or refunding bonds on an annual basis.

As described earlier, the bonds payable exceeded interest bearing assets restricted for payment of bonds by approximately \$680,000 and \$730,000 at March 31, 2008 and 2007, respectively. Also as described previously, the primary sources available to the Authority to reduce this negative margin are connection fees from User growth (new customers) and from debt service fees charged to all Users.

Capital Asset and Debt Administration

In fiscal 2008 & 2007, the Authority had no major sewer extensions and issued no new debt.

The Authority did not incur repairs to the sanitary sewer in both 2008 and 2007 that extended the life expectancy of the system or increased the Authority's ability to generate revenues.

Economic Factors and Next Year's Rates

Each year, the Authority monitors its cash flow for operating expenses and makes recommendations to the participating municipalities for rate increases necessary to fund operations and maintenance.

South County Sewer and Water Authority Management's Discussion and Analysis

Since July 1, 2007, rate increases from the regional treatment system of 30% plus unanticipated pump repairs to the system in both 2007 and 2006, prompted the Authority to approve a 10% user fee increase, which was implemented on October 1, 2007.

Based on higher operating costs resulting from increases in treatment charges from the City of Kalamazoo's regional treatment facility, the Authority may recommend increases to the rate to the Users mid-2008.

The Authority Board closely monitors the debt requirements and each year makes recommendations to the participating municipalities for adjustments to the debt service fee as needed to maintain long-term surplus cash flow for debt repayment. The participating municipalities have, to date, adjusted debt service fees according to the recommendations.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Rich Pierson, Director, or Cindy Chapman, Assistant Director, South County Sewer & Water Authority, at 269-321-8925.

South County Sewer and Water Authority
Statements of Net Assets
March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 70,028	\$ 75,008
Contracts receivable from municipalities	205,000	240,000
Other contracts receivable	20,000	20,000
Total Current Assets	<u>295,028</u>	<u>335,008</u>
Other Assets		
Contracts receivable, excluding current portion	1,730,656	1,989,760
Other contracts receivable, excluding current portion	172,140	180,411
Bond issue discount, net of amortization	28,872	31,372
Restricted cash and investments	1,276,332	1,315,134
Total Other Assets	<u>3,208,000</u>	<u>3,516,677</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$1,395,345 and \$1,196,831	<u>6,470,592</u>	<u>6,664,709</u>
Total Assets	<u>\$ 9,973,620</u>	<u>\$ 10,516,394</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 14,819	\$ 12,363
Accrued interest	52,800	57,800
Current portion of contract debt payable	371,000	371,000
Total Current Liabilities	<u>438,619</u>	<u>441,163</u>
Long-Term Liabilities		
Contract debt payable, net of current portion	<u>3,726,572</u>	<u>4,108,669</u>
Total Liabilities	<u>4,165,191</u>	<u>4,549,832</u>
Net Assets		
Invested in capital assets, net of related debt	2,349,092	2,158,612
Restricted for debt service and other purposes	3,404,128	3,745,305
Unrestricted assets	55,209	62,645
Total Net Assets	<u>5,808,429</u>	<u>5,966,562</u>
Total Liabilities and Net Assets	<u>\$ 9,973,620</u>	<u>\$ 10,516,394</u>

See Accompanying Notes to Financial Statements

South County Sewer and Water Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Charges for services	\$ 174,909	\$ 170,589
Operating Expenses		
Salaries and wages	50,549	44,215
Fringe benefits	11,363	9,714
Contracted services	78,668	68,805
Utilities	12,487	12,346
Supplies	4,087	3,430
Maintenance and repairs	12,488	18,668
Depreciation and amortization	198,514	198,500
Total Operating Expenses	<u>368,156</u>	<u>355,678</u>
Operating Loss	(193,247)	(185,089)
Non-Operating Revenues		
Debt service fees	21,201	30,236
Miscellaneous, non-operating	-	4,974
Interest income on investments	58,770	61,111
Interest income on special assessments	87,830	94,594
Interest income on connection fee contracts	10,132	9,796
Total Non-Operating Revenues	<u>177,933</u>	<u>200,711</u>
Non-Operating Expenses		
Interest expense	180,679	198,153
Miscellaneous, non-operating	3,740	-
Total Non-Operating Expenses	<u>184,419</u>	<u>198,153</u>
Loss Before Contributions	(199,733)	(182,531)
Capital contributed	<u>41,600</u>	<u>97,600</u>
Change in Net Assets	(158,133)	(84,931)
Net assets at beginning of year	<u>5,966,562</u>	<u>6,051,493</u>
Net Assets at End of Year	<u>\$ 5,808,429</u>	<u>\$ 5,966,562</u>

See Accompanying Notes to Financial Statements

South County Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 174,909	\$ 170,589
Cash payments to suppliers for goods and services	(105,273)	(109,385)
Cash payments to employees for services	(61,913)	(53,929)
Net Cash Provided by Operating Activities	<u>7,723</u>	<u>7,275</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	17,461	35,211
Proceeds from connection fees	49,871	89,173
Proceeds from contracts with municipalities	294,104	129,568
Principal paid on contract debt	(399,351)	(351,000)
Interest paid on contract debt	(165,925)	(191,335)
Acquisition and construction of capital assets	(4,397)	-
Net Cash Used by Capital and Related Financing Activities	<u>(208,237)</u>	<u>(288,383)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	156,732	165,501
Net proceeds from government obligations with maturities greater than 90 days or restricted for capital improvements or debt reduction	<u>38,802</u>	<u>143,038</u>
Net Cash Provided by Investing Activities	<u>195,534</u>	<u>308,539</u>
Net Increase (decrease) in Cash and Cash Equivalents	(4,980)	27,431
Cash and cash equivalents at beginning of year	<u>75,008</u>	<u>47,577</u>
Cash and Cash Equivalents at End of Year	<u>\$ 70,028</u>	<u>\$ 75,008</u>
SUPPLEMENTAL DISCLOSURES		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (193,247)	\$ (185,089)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	198,514	198,500
Increase (decrease) in:		
Accounts payable	<u>2,456</u>	<u>(6,136)</u>
Total Changes in Assets and Liabilities Included in Operating Results	<u>200,970</u>	<u>192,364</u>
Net Cash Provided by Operating Activities	<u>\$ 7,723</u>	<u>\$ 7,275</u>

See Accompanying Notes to Financial Statements

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE A - Summary of Significant Accounting Policies

Authority Formation and Mission

The South County Sewer and Water Authority (the Authority) was established by the Townships of Brady and Pavilion and the Township and Village of Schoolcraft, Kalamazoo County, Michigan. The Authority was incorporated in May, 1997, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of representatives of each of the constituent municipalities. The Authority was formed to operate, maintain, administer and manage a sewage collection and disposal system pursuant to Act 185 Public Acts of 1957, as amended, for the benefit of constituent municipalities.

A nineteen-year bond issue totaling \$6,100,000 financed the cost of the sewer collection system and lines. The bonds were issued in December, 1998. The debt will be repaid with proceeds from a twenty-year special assessment roll on benefiting property owners, revenue from new connection fees, and from debt service fees.

Statement on Accounting Policies

The accounting policies of South County Sewer and Water Authority conform to generally accepted accounting principles as applicable to governments. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements and APB opinions issued after November 30, 1989.

Effective April 1, 2004, the Authority adopted GASB 34, "Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments". The most significant change required by the adoption of GASB 34 was the reporting of net assets as shown in the accompanying Statements of Net Assets and the addition of the required supplementary information - Management's Discussion and Analysis. The Authority adopted GASB 40, "Deposits and Investment Risk Activities", for the fiscal years beginning April 1, 2005. GASB 40 affects the nature of the disclosures related to deposits and investment activities of the Authority.

Scope of Reporting Entity and Basis of Presentation

The financial statements of South County Sewer and Water Authority contain all the funds that are financially interdependent on the Authority's executive or legislative branches. The most significant manifestation in determining the reporting entity is financial interdependence. Other manifestations to be considered include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Another criterion used to evaluate potential component units for inclusion or exclusion in a reporting entity is the existence of special financing relationships regardless of oversight responsibilities. The Authority does not have any potential component units. Based on these criteria, the Authority is considered a reporting unit and is not considered a component unit of the Townships.

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE A - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

All activities of the Authority are accounted for in a single proprietary fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets is divided by the following components: invested in capital assets-net of related debt, restricted for debt service and other purposes, and unrestricted.

Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Activities of the Authority are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating activities include all revenues and expenses associated with sewer activities. Non-operating revenues and expenses relate primarily to financing and investing activities.

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service purposes, capital improvements, significant repairs and replacements and by Authority policy for future contingencies. Costs of capital improvements and significant repairs and replacements are funded first from restricted assets.

Fixed Assets

Fixed assets of the Authority are accounted for on a cost of services or "capital maintenance" measurement focus. Fixed assets are valued at cost. Donated fixed assets are stated at their fair market value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows: Sewer Lines - 40 years, Sewer Equipment - 7 years, and Office Equipment - 5 years.

Capitalized Interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system.

Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Estimates are subject to change and, accordingly, actual results may differ from the estimates used in preparation of the accompanying financial statements. These financial statements include estimates primarily as to the depreciable lives and salvage values of fixed assets, and the current portion of contracts receivables.

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE A - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased that are not restricted for capital additions or debt retirement are considered to be cash equivalents.

NOTE B - Cash, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its treasurer or other chief financial officer to invest surplus funds belonging to and under the control of the entity into certain instruments described as follows: bonds and other direct obligations of the United States or an agency of the State of Michigan or its political subdivisions, or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or savings and loan which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union. The Authority may invest in commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase; in United States government or federal obligation repurchase agreements; in bankers' acceptances of United States banks; in mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan and SEC regulated; or in surplus funds investment pools.

Depositories actively used by the Authority during each of the years were: Kalamazoo County State Bank and Investment Centers of America, Inc. The Authority has not established policies to monitor and evaluate custodial credit risk. At year end, investments totaling approximately \$1,190,000 were held by one counterparty and were subject to custodial credit risk.

Balances at March 31 related to cash and cash equivalents and deposits (including certificates of deposit with greater than 90 day maturities at purchase) are detailed on the statements of net assets as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 70,028	\$ 75,008
Restricted assets (See Note D)		
Bank deposits and money market accounts	617,047	219,382
U.S. government and agency securities	<u>659,285</u>	<u>1,095,752</u>
TOTALS	<u><u>\$ 1,346,360</u></u>	<u><u>\$ 1,390,142</u></u>

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE B - Cash, Deposits and Investments (Continued)

Cash, deposits and U.S. government agency securities (including restricted assets) at March 31, as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

	2008		2007	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash and deposits				
FDIC insured	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	53,553	69,631	58,047	71,115
Money Market Mutual Funds				
Insured by SPIC	500,000	500,000	136,344	136,344
Federal Home Loan Bank and Federal National Mortgage Association				
Bonds				
SPIC insured	-	-	363,656	363,656
Uninsured	692,807	682,755	732,095	717,834
TOTALS	<u>\$ 1,346,360</u>	<u>\$ 1,352,386</u>	<u>\$ 1,390,142</u>	<u>\$ 1,388,949</u>

The Authority invests in Federated Capital Reserves (Fund) money market fund. The Fund invests in commercial paper and notes, variable rate instruments, overnight securities, and bank instruments. Approximately 95% of the funds investments credit quality is in the first tier and approximately 5% are in the second tier. The money market investments and a portion of the U.S. government agency securities are insured by the SPIC, as shown in the schedule above. The SPIC is a private insurer and is not a government insurance agency. The Authority's uninsured cash and deposits are held with Kalamazoo County State Bank.

The Authority's investment in U.S. government agency securities totaled \$692,807 and \$1,095,751 at March 31, 2008 and 2007, respectively. At March 31, 2008, approximately 26% of the bonds matured within 1 month, approximately 46% of the bonds matured within 2 to 6 months, approximately 16% of the bonds matured within 7 to 12 months, and approximately 12% of the bonds matured between 1 and 5 years.

NOTE C – Contracts Receivable and Other Contracts Receivable

Contracts receivable from municipalities and developers represent legal contracts with municipalities that are payable from special assessment rolls of the municipalities. The rolls will be collected over a twenty-year period, plus interest at 1% over the Authority's cost of funds on the unpaid balance. Individual residents and businesses are legally responsible for payment of the fees. This disperses the credit risk over approximately 590 parcels in the geographic area. The assessments become priority liens on each of the assessed parcels. Additionally, unpaid portions of assessments due become tax liens due and payable in the same manner as property taxes. The amount shown under current assets represents the principal portion of special assessments estimated to be collected in the current year. Payment of the Village of Vicksburg assessment is deferred until 2010 and is accruing interest that is added to principal.

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE C – Contracts Receivable and Other Contracts Receivable (Continued)

Contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2008	2007	2008	2007
Brady Township	\$ 155,000	\$ 153,000	\$ 1,291,506	\$ 1,520,375
Pavilion Township	30,000	60,000	254,633	298,669
Developers	20,000	27,000	260,640	287,360
Village of Vicksburg	---	---	128,877	123,356
	<u>\$ 205,000</u>	<u>\$ 240,000</u>	<u>1,935,656</u>	<u>2,229,760</u>
Less current portion			<u>(205,000)</u>	<u>(240,000)</u>
TOTALS			<u>\$ 1,730,656</u>	<u>\$ 1,989,760</u>

Other contracts receivable (connection fees) consist of customers hooking up to the system who are not part of the special assessments. Contract terms vary and include interest, generally at 5.5%. The Authority sets the interest rate annually based on the local interest rate market. Other contracts receivable are secured by property liens on the related parcels. The amount shown under current assets represents the principal portion of other contracts expected to be collected in the current year.

Other contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2008	2007	2008	2007
Connection fees	<u>\$ 20,000</u>	<u>\$ 20,000</u>	\$ 192,140	\$ 200,411
Less current portion			<u>(20,000)</u>	<u>(20,000)</u>
TOTALS			<u>\$ 172,140</u>	<u>\$ 180,411</u>

NOTE D - Restricted Assets

Deposits and investments at March 31, are restricted for the following purposes:

	2008	2007
Reserved for payment on contract debt issued December 1, 1998	\$ 1,177,012	\$ 1,211,756
Reserved for payment on Sprinkle Road debt issued August 8, 2005	19,320	23,378
Reserved for capital improvements	<u>80,000</u>	<u>80,000</u>
TOTAL RESTRICTED DEPOSITS AND INVESTMENTS	<u>\$ 1,276,332</u>	<u>\$ 1,315,134</u>

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE D - Restricted Assets (Continued)

The board determines the reserve for capital improvements annually. Connection fee receipts, to the extent they are not needed for current debt service requirements, are deemed available for capital improvements. The reserve for capital improvements is also provided to cover the Authorities' exposure related to the self-insurance against risk of loss from damage that may be incurred by users of the sewer system from sewer operations/ backups and construction. See Note I.

NOTE E - Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2008, are detailed as follows:

	Cost			Balances March 31, 2008
	Balances April 1, 2007	Additions	Disposals	
Office equipment	\$ 9,152	\$ ---	\$ ---	\$ 9,152
Sewer system	7,849,954	---	---	7,849,954
Sewer equipment	2,434	4,397	---	6,831
Total Property and Equipment	\$ 7,861,540	\$ 4,397	\$ ---	\$ 7,865,937

	Accumulated Depreciation			Balances March 31, 2008
	Balances April 1, 2007	Additions	Disposals	
Office equipment	\$ 5,164	\$ 246	\$ ---	\$ 5,410
Sewer system	1,189,841	197,815	---	1,387,656
Sewer equipment	1,826	453	---	2,279
Total Accumulated Depreciation	1,196,831	198,514	---	1,395,345
Net Property and Equipment	\$ 6,664,709	\$ (194,117)	\$ ---	\$ 6,470,592

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE F - Changes in Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2008 and 2007:

	Sewer Contract Debt		
	Kalamazoo County	Other	Total
DEBT PAYABLE, APRIL 1, 2006	\$ 4,400,000	\$ 421,318	\$ 4,821,318
Debt issued	---	9,351	9,351
Debt retired	<u>(350,000)</u>	<u>(1,000)</u>	<u>(351,000)</u>
DEBT PAYABLE, MARCH 31, 2007	4,050,000	429,669	4,479,669
Debt issued	---	17,254	17,254
Debt retired	<u>(350,000)</u>	<u>(49,351)</u>	<u>(399,351)</u>
DEBT PAYABLE, MARCH 31, 2008	<u>\$ 3,700,000</u>	<u>\$ 397,572</u>	<u>\$ 4,097,572</u>

The contract debt payable at March 31, consists of the following issues:

	2008	2007
\$6,100,000 Kalamazoo County General Obligation Bonds dated December 1, 1998, due in annual principal installments ranging from \$325,000 to \$400,000 through June 1, 2017, plus interest payable semi-annually on June 1 and December 1 of each year at 4.15% to 4.30%.	\$ 3,700,000	\$ 4,050,000
\$215,800 Pavilion Township Installment Purchase Agreement dated August 8, 2005, due in annual installments of principal and interest each April 1 through April 2020, interest rate of 4.8%, secured by Special Assessment	213,800	214,800
\$212,718 Pavilion Township Sewer Fund Loan dated September 14, 2005, payable from contracts with Pavilion, supported by special assessment of Pavilion, and new connections to Sprinkle Road Sewer, interest accrues at Authority's cost of funds (currently 4.3%), interest is payable annually, principal is payable when applicable special assessment or connection fees are collected	<u>183,772</u>	<u>214,869</u>
	4,097,572	4,479,669
Less current maturities	<u>(371,000)</u>	<u>(371,000)</u>
TOTALS	<u>\$ 3,726,572</u>	<u>\$ 4,108,669</u>

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE F - Changes in Long-term Debt (Continued)

The minimum annual debt service requirements, including interest, for long-term debt outstanding as of March 31, 2008 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 371,000	\$ 169,499	\$ 540,499
2009	371,000	153,753	524,753
2010	406,800	138,095	544,895
2011	431,000	119,919	550,919
2012	431,000	101,104	532,104
2013-2017	2,078,772	227,531	2,306,303
2018-2020	<u>8,000</u>	<u>480</u>	<u>8,480</u>
TOTALS	<u>\$ 4,097,572</u>	<u>\$ 910,381</u>	<u>\$ 5,007,953</u>

The Pavilion Township Sewer Fund debt of \$183,772 is payable from a contracts with Pavilion, supported by a special assessment of Pavilion, and new connections to the Sprinkle Road extension. The expected future maturities of this debt have been reported based on the expected payments of the related special assessment without considering future connections. Should the proceeds from the special assessments in a given year be less than the required interest payment, accrued and unpaid interest is added to the note annually.

For the years ended March 31, 2008 and 2007, the Authority paid interest costs of \$165,925 and \$191,335, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2008 and 2007.

NOTE G - Retirement Plan

The Authority maintains a Simple IRA Plan, which allows employees to contribute annually up to the maximum amount allowed per the Internal Revenue Code. The Authority is required to make a contribution to the plan annually, as defined in the plan document. Contributions to the plan totaled \$2,506 and \$1,376 for the years ended March 31, 2008 and 2007, respectively.

NOTE H - Non-cash Activities

For the year ended March 31, the Authority had the following non-cash activity:

	<u>2008</u>	<u>2007</u>
Connection fee contracts added	<u>\$ 41,600</u>	<u>\$ 97,600</u>
Accrued and unpaid interest added to the principal balance of notes payable	<u>\$ 17,254</u>	<u>\$ 9,351</u>

South County Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE I – Insurable Risk

The Authority, in the normal operation of its activities, has exposure for damage to residential and commercial property and personal injury resulting from the operation or construction of its sewer system. The Authority Board has elected to self-insure against this risk. The Authority Board believes that funds accumulated and restricted for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

SUPPLEMENTAL INFORMATION

South County Sewer and Water Authority
Schedule of Operating Expenses Compared to Budget
For the Years Ended March 31, 2008 and 2007
(Comparative Actual Amounts for the Year Ended March 31, 2007)

	2008		Variance -	2007
	Budget	Actual	Favorable (Unfavorable)	Actual
Salaries and wages	\$ 44,000	\$ 50,549	\$ (6,549)	\$ 44,215
Fringe benefits:				
Social security	3,520	3,867	(347)	3,625
Insurance	5,095	4,990	105	4,713
Retirement	3,976	2,506	1,470	1,376
	12,591	11,363	1,228	9,714
Contracted services:				
Insurance/workman's compensation	7,000	5,765	1,235	6,214
Contracted services	24,000	21,165	2,835	20,553
Treatment charges	37,000	38,384	(1,384)	31,804
Engineering	2,000	893	1,107	1,882
Publications/ printing	210	-	210	216
Audit	4,500	4,500	-	4,200
Legal	1,250	573	677	628
Mileage/travel/entertainment	850	665	185	312
Miss Dig fees	400	392	8	386
Rent	2,400	2,400	-	2,200
Bank fees	100	20	80	40
Alarm system	600	3,752	(3,152)	331
Education and subscriptions	500	159	341	39
	80,810	78,668	2,142	68,805
Utilities:				
Electric and gas	10,400	10,937	(537)	10,832
Telephone	1,600	1,550	50	1,514
	12,000	12,487	(487)	12,346
Supplies:				
Postage	1,500	1,402	98	1,329
Office	2,400	2,685	(285)	2,101
	3,900	4,087	(187)	3,430
Maintenance and repairs:				
General maintenance	2,000	1,081	919	2,004
Repairs and maintenance reimbursement	11,568	11,407	161	16,664
	13,568	12,488	1,080	18,668
Totals, Excluding Depreciation	\$ 166,869	\$ 169,642	\$ (2,773)	\$ 157,178

See Accompanying Independent Auditors' Report

**South County Sewer and Water Authority
Schedule of Principal and Interest Payments
\$6,100,000 Kalamazoo County General Obligation Bonds
Dated December 1, 1998
For the Year Ended March 31, 2008**

Years Ending March 31,	Rate	Principal June 1	Interest		Totals
			June 1	December 1	
2009	4.30	\$ 350,000	\$ 79,200	\$ 71,675	\$ 500,875
2010	4.15	350,000	71,675	64,412	486,087
2011	4.25	350,000	64,412	56,975	471,387
2012	4.30	375,000	56,975	48,913	480,888
2013	4.30	375,000	48,912	40,850	464,762
2014	4.30	375,000	40,850	32,788	448,638
2015	4.30	375,000	32,788	24,725	432,513
2016	4.30	375,000	24,725	16,662	416,387
2017	4.30	375,000	16,663	8,600	400,263
2018	4.30	400,000	8,600	---	408,600
Totals		\$ 3,700,000	\$ 444,800	\$ 365,600	\$ 4,510,400

See Accompanying Independent Auditors' Report

**South County Sewer and Water Authority
Schedule of Principal and Interest Payments
Pavilion Township Installment Purchase Agreement
Dated August 8, 2005
For the Year Ended March 31, 2008**

Years Ending March 31,	Rate	Principal March 31	Interest March 31	Totals
2009	4.80	\$ 1,000	\$ 10,262	\$ 11,262
2010	4.80	1,000	10,214	11,214
2011	4.80	36,800	10,166	46,966
2012	4.80	36,000	8,400	44,400
2013	4.80	36,000	6,672	42,672
2014	4.80	37,000	4,944	41,944
2015	4.80	37,000	3,168	40,168
2016	4.80	7,000	1,392	8,392
2017	4.80	7,000	1,056	8,056
2018	4.80	7,000	720	7,720
2019	4.80	6,000	384	6,384
2020	4.80	2,000	96	2,096
Totals		\$ 213,800	\$ 57,474	\$ 271,274

See Accompanying Independent Auditors' Report

**South County Sewer and Water Authority
Schedule of Principal and Interest Payments
Pavilion Township Sewer Fund Loan
Dated September 14, 2005
For the Year Ended March 31, 2008**

Years Ending March 31,	Rate	Principal* March 31	Interest March 31	Totals
2009	4.30	\$ 20,000	\$ 8,362	\$ 28,362
2010	4.30	20,000	7,452	27,452
2011	4.30	20,000	6,542	26,542
2012	4.30	20,000	5,632	25,632
2013	4.30	20,000	4,670	24,670
2014	4.30	20,000	3,770	23,770
2015	4.30	20,000	2,870	22,870
2016	4.30	20,000	1,970	21,970
2017	4.30	20,000	1,070	21,070
2018	4.30	3,772	167	3,939
Totals		\$ 183,772	\$ 42,505	\$ 226,277

* Interest is payable annually. Principal is payable as payments are made on a special assessment to the Sprinkle Road Sewer and as new connections (not part of the special assessment district) are made to the Sprinkle Road Sewer Extension.

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Commissioners and
General Manager of South County
Sewer & Water Authority

In planning and performing our audit of the financial statements South County Sewer & Water Authority for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered South County Sewer & Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control

Separation of duties

Due to the small size of the Authority's office staff (two personnel), separation of duties is limited. The Office Manager has access to assets, recording transactions and reconciliation functions. The Director initiates and authorizes all significant transactions. The Authority is not able to obtain bonding to the extent of investment balances. As a result, the risk of loss, error, or irregularities of assets increases. We recommend that the Authority Commissioners review key financial reports and reconciliations periodically for unusual matters. In addition, fidelity bonds should be maintained in amounts adequate to cover all personnel with access to accounting records and assets of the Authority. This comment was made in the prior year.

To the Board of Commissioners and
General Manager of South County Sewer
& Water Authority
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Collateralizing bank balances in excess of \$100,000

The Authority's cash accounts exceeded FDIC insurance by approximately \$70,000 at March 31, 2008. Additionally, at March 31, 2008, the Authority maintains investments in money market accounts (approximately \$534,000) and government backed bonds (approximately \$660,000). The investments are not governmentally insured but are privately insured for up to \$500,000. We recommend that the Authority monitor the financial condition of the bank, investments, and the investment company and consider moving investments to several institutions so that Authority assets are FDIC insured. This comment was made in the prior year.

This communication is intended solely for the information and use of the Board of Commissioners and Management of South County Sewer & Water Authority, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Seber Tans, PLC". The signature is written in a cursive, flowing style.

Seber Tans, PLC
September 5, 2008

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 5, 2008

To the Board of Commissioners and Director of
South County Sewer & Water Authority

We have audited the financial statements (a single enterprise fund) of South County Sewer & Water Authority for the year ended March 31, 2008, and have issued our report thereon dated September 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 16, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 16, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by South County Sewer & Water Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of the depreciation based on the economic useful lives of the assets, the current portions of assessments and contracts receivable based on contractual terms and past history, and the collections of assessments and user bills receivable based on past history, status of current accounts, and applicable lien laws. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Management prepares the financial statements primarily on the cash basis. The material adjustments made by management were to reflect accrual entries and to report the financial statements in the format required by Government Accounting Standards.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's

To the Board of Commissioners and
Director of South County Sewer
& Water Authority
Page 3

auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners, Director, and management of South County Sewer & Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Seber Tans, PLC